

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
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-----141624Z 042578 /54

R 141301Z JAN 77
FM AMEMBASSY BUENOS AIRES
TO SECSTATE WASHDC 8543

LIMITED OFFICIAL USE BUENOS AIRES 0304

E.O. 11652: N/A
TAGS: EFIN, EIND, AR
SUBJECT: ARGENTINA: EXTERNAL FIANANCIAL DEVELOPMENTS

REF: BUENOS AIRES 0266

1. NEW INCOME TAX LAW 21481 OF DEC. 30, 1976 HAS REDUCED
SUBSTANTIALLY THE EFFECTIVE TAX RATE ON INTEREST AND TECHNOLOGY
ROYALTY PAYMENTS REMITTED ABROAD. EFFECTIVE TAX RATE IS NOW
11.25 PERCENT (FORMERLY 36 PERCENT) ON INTEREST PAYMENTS AND 18
PERCENT ON ROYALTIES (FORMERLY 36 PERCENT). ACCORDING TO THE
PREAMBLE OF THE LAW, THE MEASURES ARE DESIGNED TO LOWER THE COST
TO ARGENTINE FIRMS OF OBTAINING FOREIGN FINANCING AND TECHNOLOGY.

2. ON JAN 12, CENTRAL BANK INFORMED BANKS THAT IT IS LIMITING
MAXIMUM INTEREST RATE ON SHORT-TERM FOREIGN FINANCIAL LOANS TO
1 5/8 PERCENT OVER LONDON INTERBANK RATE (LIBO) AND ON TRADE
FINANCING LOANS TO 1 1/2 PERCENT OVER LIBO (RATE IS ABOUT 3/4
PERCENT BELOW GOING RATE). ASIDE FROM COST REDUCTION OF
FOREIGN BORROWING, BANKING SOURCES VIEW MEASURE AS EFFORT
BY GOA TO REDUCE INFLOW OF FOREIGN EXCHANGE BECAUSE OF THE
EXPANSIONARY IMPACT ON THE MONEY SUPPLY. ACCORDING TO CRONISTA
COMERCIAL, THE BANCO DE NACION'S NET PURCHASES OF FOREIGN EXCHANGE
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JUMPED SUBSTANIALLY IN RECENT DAYS: \$12 MILLION ON JAN 10;
\$50 MILLION ON JAN 11; AND \$30 MILLION ON JAN 12. SOME BANKING
SOURCES STATE INTEREST RATE LIMIT IS SO LOW THAT THEY WILL ONLY BE
ABLE TO LEND TO PRIME CUSTOMERS WHO ARE ABLE TO OBTAIN A GOA
GUARANTEE. OTHER BANK SOURCES STATE THEY MAY BE WILLING TO ACCEPT
PARTIAL INTEREST PAYMENTS IN PESOS. HOWEVER, MAJORITY OF
CUSTOMERS WILL BE FORCED TO BORROW LOCALLY AT MUCH HIGHER

RATES OF INTEREST, THUS DEFEATING ONE OF STATE GOA OBJECTIVES.

3. THE PARALLEL MARKET PESO/DOLLAR RATE HAS EASED DOWNWARD IN
THE LAST FEW DAYS, REACHING 296 BUY AND 301 SELL ON JAN 12
-- ROUGHLY 6.5 PERCENT OVER THE FREE MARKET BUY RATE OF 278.
HILL

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Message Attributes

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